

## FISCAL NOTE

### HB 3153 - SB 3156

February 28, 2000

**SUMMARY OF BILL:** Creates *The Comprehensive Tax Reform Law of 2000*, which:

- Repeals the state sales tax on grocery food. [Effective 10-01-00]
- Reduces the general sales tax from 6% to 3.75%. [Effective 10-01-00]
- Maintains the state sales tax on amusements, hotels, motels, rental cars, tobacco products, and alcoholic beverages. [Effective 10-01-00]
- Increases the tax on interstate telecommunications services from 3.5% to 3.75%. [Effective 10-01-00]
- Provides for the single item limitation on local sales tax to apply only to motor vehicles, boats and airplanes. [Effective 10-01-00]
- Increases from 0.33% to 2.25% local option tax on industrial and farm machinery. (Section 20)

- Changes allocation of state sales tax revenue as follows:

<u>Fund</u>	<u>Current Share</u>	<u>Proposed Share</u>
General	29.0246%	25.975%
Educational Purposes	65.0970%	65.0970%
Local Governments	4.5925%	7.3040%
Dept of Revenue (Administration)	0.3674%	
Sinking Fund [Debt Repayment]	0.9185%	1.6231%

- Changes in lieu of payments from 4.5925% to 6.0480% for premier type tourist resorts.
- Reduces from 3 to 1, the number of special censuses a municipality may take in the interim between the regular federal census for purposes of redistribution of sales tax revenues.
- Requires person to register with the Department of Revenue to collect and remit sales and use tax prior to the state contracting to acquire or the vendor contracting to supply goods or services to the state.
- Reduces the Hall Income Tax from 6% to 3%. [Effective 01-01-00] and requires the state to pay the difference from the general fund for distributions made prior to January 31, 2001.
- Repeals the Hall Income Tax. [Effective 01-01-01]
- Reforms gift, estate and inheritance tax laws to conform with federal estate and inheritance tax laws. [Effective for decedents dying on or after 01-01-01]
- Enacts *The Tennessee Flat Tax Law of 2000*  
Provides for a tax of 1.875%. [Effective 01-01-00 to 12-31-00] and  
Provides for a tax of 3.75% [Effective 01-01-01] on adjusted gross income with the following exemption levels for taxpayers:
  - \$5,000 exemption per taxpayer filing (\$5,000 Single; \$10,000 Married)
  - \$6,500 exemption for head of household
  - \$3,000 per dependent
  - \$5,000 for taxpayers over 65 [in addition to standard exemption]
  - 50% of Net Long-Term Capital Gains will be taxed.
- Requires that changes to tax rates, exemptions, deductions or credits to the income tax and rates for sales and use tax, be introduced in a bill and considered and passed on three different days in each house of the general assembly and on third and final consideration must receive the assent of 60% [79 of 132 members] of all members of the general assembly.

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- Provides a credit against the Professional Privilege Tax.
- Increase the excise tax from 6% to 6.5%.
- Makes numerous changes to definitions for excise and franchise tax purposes [Effective 07-01-99].
- Eliminates double taxation on business.

#### **ESTIMATED FISCAL IMPACT:**

**Increase State Revenues - Net Impact - \$979,146,242 FY00-01  
\$450,882,770 FY01-02**

**Increase State Expenditures - Dept. of Revenue:  
\$25,568,100 Recurring  
\$953,300 One-Time**

**Increase Local Govt. Revenues - Exceeds \$15,000,000 FY00-01  
Exceeds \$20,000,000 FY01-02**

<u>State Revenues Increased</u>	<u>FY00-01</u>	<u>FY01-02</u>
Flat Tax (net of exemptions & deductions)	\$2,532,122,353	\$2,532,122,353
Interstate Telecommunications	825,000	1,100,000
Excise Tax	<u>56,591,667</u>	<u>56,591,667</u>
Subtotal - Revenues Increased	\$2,589,539,020	\$2,589,814,020

#### **Less:**

#### State Revenue Reduced

Reduction in General Sales Tax Rate	1,340,212,500	1,786,950,000
Repeal Sales Tax on Grocery Food	201,562,500	268,750,000
Addback Double Removal - Sales Tax Food	(94,482,222)	(167,968,750)
Reduce Hall Income Tax	87,100,000	174,200,000
Eliminate Double Taxation on Businesses	60,000,000	60,000,000
Credit Against Professional Tax	15,000,000	15,000,000
Reform Gift and Inheritance Tax	<u>1,000,000</u>	<u>2,000,000</u>
Subtotal - Revenues Reduced	1,610,392,778	2,138,931,250

**NET INCREASE IN STATE REVENUES      \$979,146,242      \$450,882,770**

Assumptions for Changes in State Revenues:

1. Flat Tax - Reflects a rate of 3.75% on adjusted gross income, exemption levels as outlined in the bill, 1999 income data (adjusted), capital gains taxed at 50%.
2. Interstate Telecommunications - Reflects a rate of 3.75%. Assumes in FY00-01 75% of revenue is collected resulting from an effective date of October 1, 2000.
3. Excise Tax - Rate Increase of 0.5%. Revenues are based on estimates taken from page A-79 of the FY00-01 Proposed budget.

#### 4. Sales Tax

- Reduction in state sales tax rate on all but selected items - The estimate represents a 2.25% reduction in items outlined in the bill and considers those items already at special tax rates that would not be affected. The estimate for FY00-01 represents 9 months collections.
- Repeal of sales tax on grocery food - Estimate for FY00-01 represents three months collection (July-September) since the effective date is October 1, 2000. Value of the grocery rate reduction remaining after the reduction in the general sales tax rate from 6% to 3.75%.

#### 5. Hall Income Tax

- Reduced rate from 6% to 3% during FY00-01
- Repealed for FY01-02
- Estimates are based on figures taken from page A-79 of the FY00-01 proposed budget.

#### 6. Double Taxation on Businesses - The estimate reflects an amount that will not be collected due to revisions in this bill

#### 7. Credit against Professional Tax - Represents the credit received by in-state professionals.

#### 8. Gift & Inheritance Taxes - Represents decreased revenue resulting from passage of the bill which brings state law into conformance with federal law.

#### 9. The net increase in state revenues does not consider the shift of funds that would result from the reapportionment of revenues upon passage of this bill. Furthermore, the increase does not consider funds which would be provided to the Rainy Day Fund by passage of this bill since existing statutes require 10% of the estimated growth in revenues to be allocated to such fund.

#### Assumptions for State Expenditures:

1. The estimate represents funding for administration and implementation of the bill upon passage with \$25,568,100 for recurring items and \$953,300 for one-time type expenses. It is estimated that 349 full time positions and 155 part time positions are required to administer the provisions of the bill.
2. These expenditures are included in the FY00-01 proposed budget and are reflected on page B-12 of the budget document.

#### Local Government Revenues:

Provisions of the bill remove the single item limitation on local sales tax except for motor vehicles, boats and airplanes and is estimated to provide additional revenues to local governments that exceed \$15,000,000 in FY00-01 and \$20,000,000 in FY01-02 and thereafter.

#### **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director